

County of Orange

Strategic Financial Plan

Another step towards
continued financial
success for the
County of Orange



On May 12, 1998, the Orange County Board of Supervisors unanimously adopted the County's first Strategic Financial Plan. Since the County began its restructuring efforts in 1996, it has made great strides in achieving the vision for a

better County government. The Strategic Financial Plan represents another step on the County's path towards continued success through fiscal responsibility, accountability and efficiency.

Steps to Financial Success

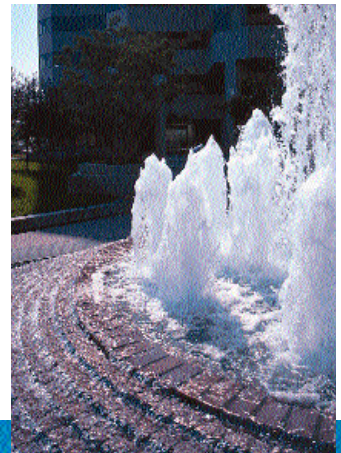
A Plan for the Future

Spearheaded by the County Board of Supervisors, the Strategic Financial Plan is the culmination of an intensive operational and financial planning process which incorporated the talents of local government, education and the business community to identify financial priorities, forecast revenues and expenses, and develop a balanced five year financial outlook. In March of 1997 Strategic Financial Plan process began with the Board's adoption of 31 "strategic priorities" identified through a series of planning sessions with department heads, managers, staff and the public. These strategic priorities represent program, policy and infrastructure projects in each of the County's core functions:

- General Administration
- Public Safety
- Health and Human Services
- Environmental Protection and Regional Planning

The County Executive Office worked with agency and department personnel to prepare a five year financial forecast of County expenses. Staff then estimated the operating and capital cost associated with each of the 31 priorities. With this information, the Board worked through various potential funding scenarios to define the County's financial course for the next five years, recognizing that not all strategic priorities could be supported and funded within the five year window.

Balancing competing priorities, the Strategic Financial Plan achieves three key objectives.



1. Provides a Balanced Budget—A course of sound financial management has been mapped so that the County of Orange will have an annual balanced budget.
2. Funds Strategic Priorities—Through a series of public planning sessions and an extensive prioritization process, the Board identified and allocated funding for strategic priorities in three areas: financial management; public safety; and maintenance of County infrastructure.
3. Supports Essential County Services—The financial planning exercise defined the funding requirements to support the essential countywide services in health, public safety, transportation, public assistance and other programs. Continued funding for these services is provided within the five-year plan.

This Board has built a structure for effective short and long term decision-making for the first time in Orange County history. It represents a departure from past practices which focused solely on annual requirements, without understanding the longer term financial context. The Strategic Financial Plan provides the framework for the annual budget process, enabling annual funding decisions to be made with the knowledge and benefit of a more comprehensive, long-term perspective.

The Board's commitment to a balanced budget recognizes that not all priorities can be supported and funded within the five year planning horizon. Difficult choices were made and will continue to be made. The Strategic Financial Plan is not a one-time exercise; rather, it marks the County's long term commitment to prudent financial management. With the Strategic Financial Plan as an ongoing tool, the County will be well equipped to make difficult financial decisions through the 21st century.



“The best news about the County’s financial outlook is that for the first time there is a structure in place to help the County face short and long term operational decisions”



By almost any measure, the Orange County economy is one of the strongest in the nation. Housing, retail sales, and employment figures all point to a healthy, growing economy in Orange County. The Strategic

Springboard for Success

OC Economy Thriving

Financial Plan relies on economic forecasts to project County revenues and inflationary growth factors enabling County leaders to weigh economic projections when making decisions about the County's financial priorities over the next five years.

Chapman University's Center for Economic Research developed the economic forecast and revenue projections which that are at the foundation of the Strategic Financial Plan. The Chapman forecast is very positive for Orange County, projecting a continued expansion of the local economy consistent with national growth and in some cases exceeding national trends. Three economic measures were key to the financial forecast relied upon for the Strategic Financial Plan.

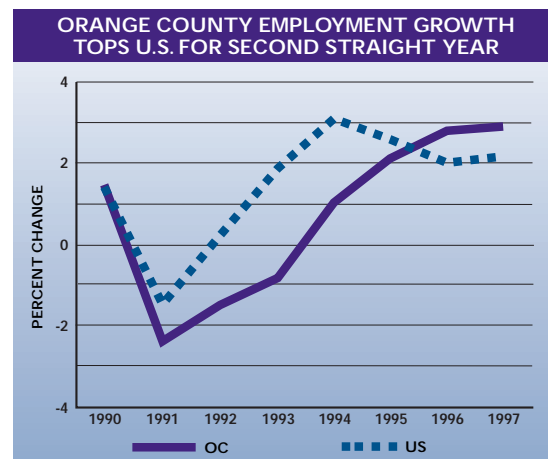
Job Growth

In 1997, Orange County experienced its highest level of payroll employment growth of the 1990s. Growing at a 2.0 percent average annual rate, payroll employment increased from 1.18 million in 1996 to 1.21 million in 1997—an increase of 35,000 jobs.

As shown in the following figure, Orange County's employment growth exceeded that of the U.S. national growth for the second straight year. Since 1993, over 100,000 new payroll jobs have been created. These job gains have more than made up for job losses during the 1990-93 recession. Overall payroll employment is up by over 45,000 since the beginning of the 1990s. The long-run forecast for job growth in Orange County is equally positive with the projected creation of almost 200,000 jobs over the next six years.

Retail Sales

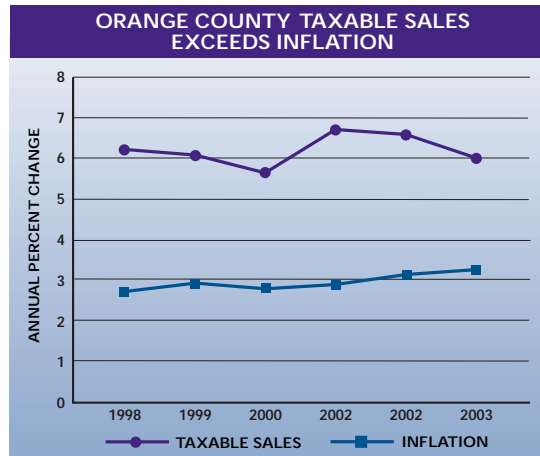
Retail sales are an impor-



Source: Chapman University, Center of Economic Research

tant indicator of consumer confidence in the economy and fuel continued economic expansion. Sales tax revenue is also an important revenue source to local government. Cities receive one percent of total taxable sales and the County receives the same amount in the unincorporated areas.

Total taxable sales in Orange County are forecast to increase from \$32.5 billion in 1996 to \$50.2 billion in 2003 at an average annual increase of 6.4 percent. Even when adjusted for inflation, taxable sales are projected to grow at an average annual rate of about 3.9 percent.



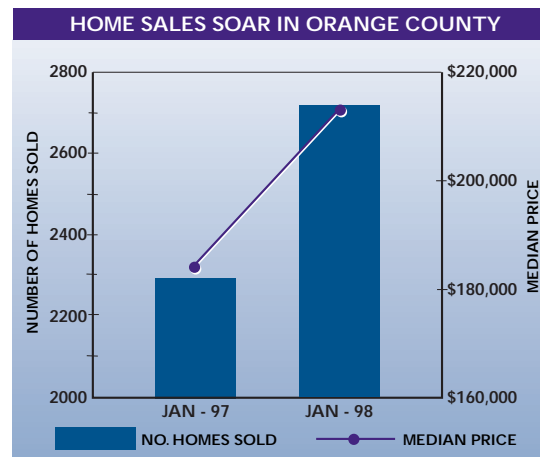
Source: Chapman University, Center of Economic Research
Note: Inflation measured by projected consumer price index.

Residential Market

The economic outlook also provides good news for Orange County homeowners. The

Chapman Center projects that the Orange County residential market will continue to increase in value as the potential demand for housing exceeds new construction and reduces existing inventory. Continued job formation and relatively low mortgage rates are increasing demand and raising housing prices.

On average, resale housing prices are forecasted to increase at an annual rate of 3.8 percent from 1996 to 2003, above the overall rate of inflation. Housing prices overall continue to improve throughout Southern California and Orange County is leading this growth.



Source: DataQuick, Orange County



"Orange County's galloping economy is picking up even more speed this year after a stunning performance in 1997..."

Los Angeles Times
May 26, 1998

While the economic news for Orange County is positive, it does not mean that the County's financial outlook is not without challenges. Growth in County revenue is often restricted by legislation. Property tax assessments, for example, the largest percentage share of County discretionary revenue, are limited to two percent annual growth by Proposition 13. The Strategic Financial Plan must also continue to support the debt service requirements resulting from the 1996 Bankruptcy Recovery Plan.

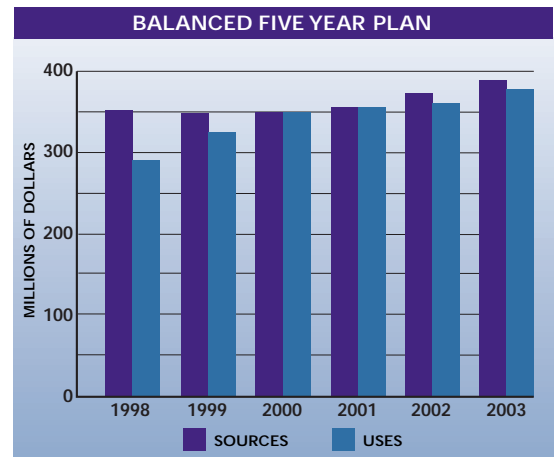
Balanced Five Year Plan

Strategic Priorities Funded

The first step in the financial plan development was creating a balanced five year operating plan. As shown in the graphic below, the Financial Plan achieves this. Any surplus in operating revenues plus unrestricted reserves are then available to support strategic priorities. The Board relied on several principles to guide how this limited pool of resources would then be allocated. These strategic priorities include:

- County will not construct any facility that it cannot afford to operate;
- One-time revenues will be used for one-time expenses;
- County budget must continue to be balanced.

The following chart summarizes the financial commitments the Board has made over the next five years to fund strategic priorities. Additional grant or dedicated funds may also be available to support strategic priorities and are not reflected in the chart.



Source: County of Orange Strategic Financial Plan

The funding of strategic priorities began with the 1997/98 budget. The

Board dedicated \$62 million to ensure that all County data systems are Year 2000 compliant and to expand the County's discretionary audit program. The County also dedicated \$15 million to restore the County's contingency fund, and added \$24 million to the debt repayment reserve.

As the Board looks through fiscal year 2002-2003, approximately \$166 million, including \$108 million in working capital reserves, will be available to support strategic priorities after meeting baseline operating costs. The 1998 Strategic Financial Plan directs these resources to three priority areas:

- **Fiscal Responsibility**—The Board must continue to refund and repay debt incurred as part of the bankruptcy recovery as quickly as it makes financial sense.
- **Public Safety**—Safety for the citizens of Orange County is a top priority. Public safety requires adequate facilities for jails, courthouses and the funds to support operating requirements.
- **Maintaining Public Infrastructure**—County facilities must be maintained and accessible for the safety and well being of Orange County citizens and employees and as a prudent investment against greater long term

costs.

Fiscal Responsibility

The Strategic Financial Plan addresses the Board's goal of defeasing outstanding debt in two ways. First, the Plan withdraws \$31 million from the Debt Repayment Reserve account to defease a portion of the 1995 Recovery Bonds issued as a result of the bankruptcy. Defeasance of this debt will translate into approximately \$37.6 million in budgetary savings over the next five years.

Secondly, the Strategic Financial Plan dedicates \$21 million over the next five years to contributions in the Debt Repayment Reserve Account. The balance in the Reserve account of approximately \$16 million plus future contributions will be available to defease additional debt as soon as practical, given bond terms and market conditions. At this time contributions in years five through ten are projected at approximately \$24 million. The County is not waiting for potential revenue from lawsuits arising out of the bankruptcy to pay off its debt; rather, it is establishing an aggressive program to retire debt as soon as it is legally able and financial advantageous to do so.

Public Safety

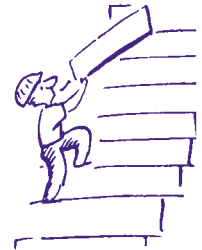
The critical shortage of jail beds in Orange County has been well documented, the shortage has resulted in over-crowded conditions and required the early release of thousands of inmates. In 1997, the Board approved Phase I of the Theo Lacy County Jail Facility. Adoption of the Strategic Financial Plan in May 1998 approves Phase II of the jail expansion for \$33.5 million. When the two phases are completed, over 750 new jail beds will be added, along with 125 medical beds.

The Strategic Financial Plan also reserves \$31 million for the potential construction of a new court facility in south Orange County. The Board will continue to evaluate court needs in South County and determine the best course of action to support these requirements.

Maintaining Public Infrastructure

Budgetary constraints as a result of the bankruptcy and past economic conditions resulted in the deferral of maintenance of County facilities and equipment. This deferral of critical maintenance, coupled with the need to fully implement the Americans with Disabilities Act (ADA) requirements, has created a significant backlog of maintenance and building improvement projects. The estimated cost of these deferred projects is \$55 million. The Strategic Financial Plan dedicates approximately \$40 million over the next five years to meet this need.

The unanimous adoption of the Strategic Financial Plan demonstrates the Orange County Board of Supervisors' commitment to sound financial management principles and illustrates the Board's willingness to make tough decisions to ensure the County's financial success.



"The Strategic Financial Plan directs resources to three priorities: Fiscal Responsibility; Public Safety; Maintaining Public Infrastructure"

The adoption of the Strategic Financial Plan is another step in the County's implementation of a corporate management system that emphasizes sound fiscal controls and accountability. County leadership recognizes that funding decisions made today will determine its future success and commits to ensuring those decisions are implemented.

Strategic Planning Process

Steps to Success

Financial planning will be an ongoing process and staff will annually present a revised five-year forecast to the Board. The process will allow for a reprioritization of projects as well as adjustments to funding decisions based on changing economic and revenue forecasts. The Strategic Financial Plan will be readopted annually in the Spring of each year.

Financial management is only one step in the County's "steps to success." As part of the County's program to implement a corporate management system, the County is instituting several other initiatives:

- Results Oriented Government—Developing a means to objectively measure and compare the outcomes of County services and programs is essential to truly being a "results-oriented government." County managers clearly define the results they intend to achieve and the Board and public can then hold them accountable.
- Performance Incentive Program—Under the leadership of the Orange County Labor Management Task Force, the County will link employee and department performance to monetary and non-monetary incentives. The Performance Incentive Program is aimed at motivating and recognizing individual and team performance and its connection to achieving County goals.
- Business Plans—Department Heads will continue to prepare annual business plans to define their programmatic goals and objectives and identify specific strategies to achieve them. Business plans will begin to include department and agency performance measures as the County implements the results oriented government project.

Orange County is a growing and dynamic place to live and work. In every area of County government change is underway to better serve and meet its constituent needs. Steps are being built for a responsible, effective and accountable County government headed for success.



"County leadership recognizes that funding decisions made today will determine our future success and commits to ensuring those decisions are implemented."

Funding Plan

Funding for Strategic Priorities (in millions of dollars)

Fiscal Year Ending June 30	1998	1999	2000	2001	2002	2003	Six Year Totals
Fiscal Responsibility							
Debt Reduction	24.1	5.0	5.0	5.0	5.0	1.0	45.1
Restore contingency Fund	15.0						15.0
Public Safety							
Central Court Space Needs		0.3	0.3	0.3	0.3	0.3	1.5
Jail Expansion		33.5			6.9	10.8	51.2
South Court Construction	5.0	7.0	20.1				32.1
Maintain Public Infrastructure							
Major Maintenance/ADA Compliance		8.0	9.0	9.0	7.5	6.4	39.9
Year 2000 Compliance	3.0						3.0
Communications Network	1.5						1.5
Technology Upgrades	8.0						8.0
Other Priorities							
Discretionary Audits	0.3						0.3
Economic Development		0.2	0.2	0.2			0.6
Improved Access to Financial Data	0.8						0.8
Tourism		0.6	0.6	0.6			1.8
Workforce Issues		0.3	0.3	0.3	0.3	0.4	1.6



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